CTCR/1

Children's Tax Credit

Tax relief for families with children

This leaflet is available in Braille, audio tape and large print. Contact your Inland Revenue Office for copies.

Other leaflets you may find useful are

DPTC/BK1	'Your guide to Disabled Person's Tax Credit'
WFTC/BK1	'Your guide to Working Families' Tax Credit'
WFTC/AP	'Appeals against tax credits decisions'
SA/BK3	'Self Assessment. A guide to keeping records for the self-employed'
COP 17	'Enquiries into applications for Working Families' Tax Credit and Disabled Person's Tax Credit'
IR37	'Appeals against tax, National Insurance contributions, Statutory Sick Pay and Statutory Maternity Pay'

Leaflets are available from Tax Offices, Inland Revenue Enquiry Centres and Benefits Offices. Addresses are in your local telephone book. The leaflets are also available on the Internet at **www.inlandrevenue.gov.uk**

JTJ1 'Just the job'
Available from Jobcentres.

'New Deal for Lone Parents,' a leaflet explaining what the programme can provide to help lone parents on Income Support to find work, is available from the New Deal for Lone Parents Information Line on **0800 868 868**.

The following leaflets on the National Minimum Wage can be ordered by phoning the national minimum wage helpline on **0845 6000 678**.

URN 99/662	'A detailed guide to the Minimum Wage'
URN 99/663	'National Minimum Wage - a short guide for employers'
URN 99/664	'National Minimum Wage - a short guide for employees'

BTWB20 'Back to work Bonus'
CMB20 'Child Maintenance Bonus'
Available from Jobcentres, Social Security Offices and Post Offices.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

THIS LEAFLET EXPLAINS WHAT THE CHILDREN'S TAX CREDIT IS AND HOW IT COULD REDUCE THE AMOUNT OF INCOME TAX YOU PAY.

The Children's Tax Credit is a new income tax relief for people who have at least one child under 16 living with them. It will be introduced from 6 April 2001 and could reduce the income tax you need to pay by up to £442 a year.

This leaflet explains who can claim the Children's Tax Credit, how it works and what you need to do to claim it.

Who can claim the Children's Tax Credit?

The Children's Tax Credit is designed to help families who have at least one child under 16 living with them. It is available to married or unmarried couples and to single parents. For couples, there are special rules about which partner should claim the credit. (See page 4).

To claim, you must have at least one child who is

- your own child, a stepchild, adopted child or a child you look after at your own expense
- under 16 at the start of the tax year, and
- living with you for at least part of the tax year.

If someone else can also claim for the same child, you may have to share the Children's Tax Credit with him or her. (See pages 5-9).

If you are not sure whether you can claim or want any more information, you can call the Children's Tax Credit Helpline on **0845 300 1036.**

What happens if the child reaches 16 during the tax year?

You are still entitled to the Children's Tax Credit for the whole year as long as the child is living with you during the period before his or her 16th birthday.

How does the Children's Tax Credit work?

The Children's Tax Credit is an income tax relief. It is not a payment to you, but a way of reducing the tax you pay on your income.

Unlike the personal tax allowance, the Children's Tax Credit is not an amount of income you can receive without paying tax. Instead, it reduces your tax bill by up to a set amount and this is reflected in your tax code.

How much is it worth?

In 2001/02, it is worth up to £442 off the tax you have to pay.

How do I claim it?

You will need to fill in the claim form, which is available from your Tax office. You can order a Welsh language version by calling **0845 7660 830**.

Once you have made a claim for Children's Tax Credit, you will not need to claim or tell your Tax Office again, unless your circumstances change.

Can I claim the Children's Tax Credit for each child living with me?

No. There is only one credit for each family. If you are living with a partner, you or your partner can have only one credit between you, even if you have more than one child living with you.

Will the amount of Children's Tax Credit I get be reduced if my income is above a certain level?

Only if the person claiming it is a higher rate taxpayer - that is, if their individual income in that tax year is likely to be more than £32,785 (based on 2000/01 tax bands). The credit of £442 is reduced at the rate of £1 for every £15 of income taxed at the higher rate. This means that you are unlikely to receive any credit if your income is above around £41,000. If you are not sure what rate of tax you are paying, please contact your local Tax office.

The credit is expressed as an allowance of £4,420 given at the rate of 10%. If you are a higher rate taxpayer, you may see the reduction of the credit expressed as £2 of the allowance withdrawn for every £3 of income in the higher rate band.

Example 1

Jeremy and Louise have 2 children under 16. Louise earns £36,010 and Jeremy earns £25,000. Louise has to claim the Children's Tax Credit as she is the higher rate taxpayer. (See page 4).

Louise is taxed as follows (using 2000/01 rate bands and personal allowance)

- 0% on the first £4,385 of her income (the limit of her personal allowance)
- 10% on the next £1,520 of her income (i.e. at the starting rate up to £5,905)
- 22% on the next £26,880 of her income (i.e. at the basic rate up to £32,785)
- 40% on the remaining £3,225 of her income (i.e. at the higher rate up to £36,010)

The credit is reduced by: $\frac{£3,225}{15}$ = £215

Therefore the credit is worth £442 - £215 = £227 off the tax that Louise has to pay.

Which partner in a couple should claim the Children's Tax Credit?

The rules for couples living together apply to married and unmarried couples. The partners in a couple can have one Children's Tax Credit between them.

If neither partner in the couple pays tax at the higher rate in the tax year, then either of them can have the whole credit, or they can decide to share the credit equally between them. Both partners have to agree if the partner with the lower income is to have all the credit allocated to him or her.

If the partner who receives the credit does not pay enough tax to use all the credit, he or she will be able to transfer the unused credit to the other partner after the end of the tax year.

If either, or both, partners pay higher rate tax, the partner with the larger income must claim the credit. You will not be able to share the credit or transfer it to the partner with the lower income. This is to ensure that the reduction in the credit is based on the income of the person with the higher income.

The form for claiming the Children's Tax Credit asks couples to tell us how they want us to allocate the credit between them. **Each partner can also claim separately if they prefer - they will each need to fill in a claim form.**

THIS SECTION EXPLAINS HOW THESE CHANGES AFFECT THE CHILDREN'S TAX CREDIT.

Can the amount of Children's Tax Credit I get change during the tax year?

Possibly. If your circumstances change during the year, this could affect your Children's Tax Credit. Some circumstances which might change are

- you start or stop living with your partner
- your child starts or stops living with you
- your income or your partner's income changes.

What happens if I get married or start living with my partner or if we split up?

You will need to inform your Tax Office. The Children's Tax Credit is split up depending on the point in the year at which your change of circumstances takes place.

If you start living with a partner, the rules about sharing the credit between couples will apply for the part of the year after you marry or start living with your partner. If you are not married and your new partner is not the natural parent of your child, they will be able to claim a share of the Children's Tax Credit only if they are meeting at least half the total cost of maintaining your child. If you alone are responsible for the cost of maintaining your child, the whole of the Children's Tax Credit will be allocated to you.

If you stop living with your partner, the rules about sharing the credit between couples apply to the credit for the part of the year before you and your partner split up.

After you split up, you may be able to claim part of the credit for the rest of the year, provided your child or children still live with you. If the child you are claiming for also lives with your former partner for part of the time after you split up, you may need to agree with him or her how you share the credit for that part of the year. (See 'What happens if my child lives with someone else for part of the year?' on page 8).

Example 2

Jack and Jill have been living together and sharing the credit equally. Both are basic rate taxpayers. They separate on 21 August 2001 and the children go and live with Jill.

The year is then split into two parts.

- For the first part of the tax year, from 6 April to 20 August 2001, (137 days) the couple live together.

The credit is worth £442 for a full year.

So for this period it is worth up to £442 x $\frac{137}{365}$ = £166

which means for this part of the year it is worth up to £83 for Jack
£83 for Jill

- For the second part of the tax year, from 21 August 2001 to 5 April 2002, (228 days) the children live with Jill.

For this period the credit is worth up to £442 x $\frac{228}{365}$ = £276 for Jill only

Therefore, over the whole year it is worth up to £83 for Jack
£359 for Jill (£83 + £276)

What happens if I have been sharing the credit with a partner but get married again or start to live with a new partner?

You will need to inform your Tax Office. The Children's Tax Credit for the year in which you remarry or start living with a new partner will be split according to the point in the year at which the change takes place.

Example 3

Peter is married to Alison and they have one child. They are both basic rate taxpayers and are sharing the Children's Tax Credit equally. On 10 September 2001, Alison leaves Peter to live with her new partner Anthony and takes the child with her. Anthony contributes at least half of the total cost of maintaining the child from 10 September. Anthony is a basic rate taxpayer and he and Alison decide to share the tax credit.

- For the first part of the year, 6 April 2001 to 9 September 2001 (157 days), Alison is living with Peter.

The credit for this part of year is worth up to £442 x $\frac{157}{365}$ = £190

which is worth up to £95 for Alison
£95 for Peter

- For the second part of the year, 10 September 2001 to 5 April 2002 (208 days), Alison and the child are living with Anthony

The credit for this part of the year is worth up to £442 x $\frac{208}{365}$ = £252

which is worth up to £126 for Alison
£126 for Anthony

Therefore, over the year the credit is worth up to £221 (£95+£126) for Alison
£95 for Peter
£126 for Anthony

After you remarry or start living with your new partner, your former partner may still be entitled to a share of the credit if the child also lives with him or her for part of the time. The rules about allocating the credit between couples will apply to you and your new partner's share of the credit during that time.

Example 4

Jenny is married to Andrew. She has a son, Phillip, from her first marriage to James. Phillip lives with Jenny and Andrew for 9 months of the year and for 3 months of the year he lives with James. All the adults are basic rate taxpayers.

As Phillip lives with James for 3 months of the year, Jenny and James agree that James should claim a quarter of the Children's Tax Credit

$$\frac{£442}{4} = £110.50$$

Jenny and Andrew claim three quarters of the tax credit

£442 x 3/4 = £331.50

Jenny and Andrew agree to share the credit so this is worth £165.75 to each of them.

What happens if my child lives with someone else for part of the year?

If that person also claims the Children's Tax Credit for that child, the credit can be divided between you as you agree. For example, separated parents whose child lives with each of them for part of the year can agree to share the credit between them. Separated couples who have more than one qualifying child under 16 may each be able to claim the full Children's Tax Credit. You should speak to your Tax Office if you think this might be the case.

If you cannot agree how to divide the credit between you, the independent General Commissioners for income tax will make a decision. (You can find details on appealing to the Commissioners in our leaflet IR37 'Appeals against tax, National Insurance contributions, Statutory Sick Pay and Statutory Maternity Pay'.)

What happens if my income changes during the tax year?

This depends on what the changes are. This section explains what you need to do in different situations.

What happens if my income rises above my partner's?

You may need to think again about who will get the Children's Tax Credit. As long as neither of you pays higher rate tax, then

- if you are sharing the credit, you do not need to do anything
- if you already have the credit allocated to you, you should tell your Tax Office, but it will not affect your Children's Tax Credit
- if your partner has the credit, you can jointly agree to keep that allocation. You should ask your Tax Office for a new claim form.

What happens if my partner or I start to pay income tax at the higher rate?

If either or both of you start to pay tax at the higher rate, then whoever has the higher income must claim the Children's Tax Credit. If you and your partner share the credit or have previously agreed that the partner with the lower income should have all of it, you need to tell your Tax Office as soon as possible so that they can allocate the credit to the right partner. The credit will gradually be reduced, based on the income of the person claiming it.

What happens if I stop being a higher rate taxpayer?

If that means neither you nor your partner is now a higher rate taxpayer, you can, if you and your partner wish, choose to share the credit or pass it to your partner. You should contact your Tax Office if you want to do this.

When do I need to tell my Tax Office about the change in circumstances?

If you are already getting the Children's Tax Credit, then you should tell us at the time the change of circumstances occurs if you think the change may affect how much credit you can claim. This will help us to give you the right amount of credit at the right time during the year. If you are claiming the credit after the end of the year to which it applies, you should tell us about any changes like this at the time you make the claim.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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